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VOL. CLIII NO. 118 Friday, June 17, 1988 155rd Year

Today

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THRIFTS & MORTGAGES

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More attention should be paid to proposed remedies for the ailing thrift industry than to estimating the costs of bailing it out, writes Henry Peltz in the Observer column. ____4

Worth Repeating

They have called us a lot of things — a white serf instead of a white knight. They say we are part of the Italian government. None of these things, I think, are befitting a member of the international financial community, and none of these things do I accept.

Mario Arcari, managing director, Banca Commerciale Italiana. [Page 1]

BCI Angry over Bank of New York Tactics

By JOHN J. DUFFY

MILAN — When he talks of the long running tug-of-war between the Bank of New York and Banca Commerciale Italiana for control of Irving Bank *Corp., Mario Arcari's eyes alternatively* flash amusement and anger.

When it comes to some of the Bank of New York takeover tactics, however, anger is clearly the dominant emotion. "It's been mainly a lot of B.S.," said Mr. Arcari, formerly chief executive officer at Long Island Trust Company and currently one of Banca Commerciale's two managing directors.

"They have called us a lot of things — a white serf instead of a white knight. They say we are part of the Italian government. None of these things, I think, are befitting a member of the international financial community, and none of these things do I accept."

The fight between Banca Commerciale Italiana and the Bank of New York for control of Irving moved into a new phase Wednesday when Bank of New York increased its offer to roughly $75 in cash, stocks, and dividends for each Irving share it does not already own.

That compares with a BCI offer of $80 a share, plus interest payments and special dividends, for 51% of Irving.

BCI chairman Enrico Braggiotti said the new offer was being studied. "We do note that in light of the offer's significantly dilutive effect on the Bank of New York's stock, there is a great deal of uncertainty about the true value of its proposal," he said.

At the head offices of Banca Commerciale Italiana here in the Piazza della Scala, which overlooks the famous Scala opera house, BCI executives are clearly digging in for a fight. With a six-hour time difference between Milan and New York, BCI executives are often still in their offices at 9 or 10 p.m.

'They have called us a lot of things — a white serf instead of a white knight.'

— Mario Arcari

awaiting the latest bid developments from New York.

In spite of the long hours, Mr. Arcari and Mr. Braggiotti believe they have made good progress in educating the American banking community about both the reasons for the bid and how state-owned Italian banks operate.

"At the beginning, the response from American analysts and the American press was very negative," Mr. Ar-

Irving's: Page 10 ➤

Loss of Centerre Bid Leaves Mercantile Vulnerable

By RICHARD RINGER

ST. LOUIS — The battle between Boatmen's Bancshares Inc. and Mercantile Bancorp. to acquire Centerre Bancorp. was not just a fight for control of a bank. More important, the cross-town competitors were fighting for long-term independence.

With Boatmen's victorious $467 million offer on Tuesday, its future seems a bit more secure. Mercantile, analysts said, will be looking over its shoulder at potential acquirers.

When completed, the Centerre acquisition will increase Boatmen's assets to $14.7 billion from $9.9 billion, making it the 41st largest bank company in the country and the largest by far in the region. Mercantile is the next largest Missouri bank, with $6.8 billion in assets.

The acquisition of Centerre "certainly reduced the chance" of another bank company acquiring Boatmen's, said Donald N. Brandin, a director of Boatmen's. "It would be very difficult to acquire somebody of our size.

How Merger Adds Up

Combined totals for Boatmen's and Centerre (March 31 data)

Banks	49
Bank locations	217
Assets (billions)	$14.7
Deposits (billions)	$11.0
Net loans (billions)	$8.4
Primary capital to assets	7.91%
Net income[1] (millions)	$32.0
Employees	8,950

[1]First quarter

"Banking consolidation is sweeping across the country. It is inevitable," he said in an interview at Boatmen's offices shortly after the agreement was announced. "We think this size will put us in a better position to compete more effectively with some of the emerging superregionals that are developing in the East."

The stock market on Thursday confirmed that Mercantile was back in play as a takeover target. Mercantile's stock rose to $26.75 from $24.75 a share yesterday in heavy trading.

The Boatmen's-Centerre agreement ends six months of efforts by competing Missouri bank holding companies to get control of Centerre. Several out-of-state holding companies also had expressed an interest in acquiring all or

Loss: Page 14 ➤

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Ex-InterFirst Director Faces Fraud Charges

By JIM McTAGUE
Washington Bureau

WASHINGTON — Federal prosecutors Thursday charged Edwin L. Cox Jr., a former director of InterFirst Bank Dallas, with fraud in connection with his 1986 default on an $80 million loan.

Mr. Cox, scion of one of the wealthiest families in Texas, faces five years in prison plus a $250,000 fine, according to Jack Williamson, the U.S. attorney in charge of criminal investigations for the Dallas district.

In November 1987, Mr. Cox repaid the loan plus interest to FirstRepublic Bank Corp., which had merged with the parent company of InterFirst Dallas. Mr. Williamson said the repayment most likely would be taken into account if Mr. Cox is convicted.

The prosecutors charged that Mr. Cox filed false financial documents with the bank in order to obtain the loan, misleading bankers about his financial condition as well as the value of the cattle pledged as collateral on the borrowings. He will be arraigned on June 24 in Dallas.

Mr. Cox, 40, could not be reached for comment Thursday. His spokesman, William Graham, did not return phone calls.

Mr. Cox previously said he always had intended to repay the loan.

Former employees of the defunct InterFirst Bank Dallas, who lost their jobs when the bank failed, have charged that Mr. Cox used his status as a director and a longtime bank customer to mislead loan officers.

Contributed to Bank's Large Loss

The news of the default created a sensation in Texas. On July 15, 1986, InterFirst Corp., the bank's parent, announced it would report a $281.1 million loss in the second quarter. The Cox loan was identified as a "material amount" in the loss.

The bank made a criminal referral to the Justice Department. Mr. Cox's allies have maintained that if the multimillionaire had not had such a high profile, the case would have been dropped.

"Certainly the Attorney General has something better to do than to go after someone who had a technical glitch in his operations but eventually paid back his loan," a lawyer for Mr. Cox said several months ago.

Mr. Cox's father is an oilman who was one of InterFirst Corp.'s founding directors. The business school at Southern Methodist University is named after him.

The former bank employees, who spoke on the condition of anonymity, said the younger Mr. Cox had a 15-year banking relationship with InterFirst. As a director of the corporation's flagship bank in Dallas, he was a member of the loan review committee, they said.

The ex-employees said they were shocked in June 1986 when Mr. Cox first announced that he could not repay his loan and would declare bankruptcy if they did not work with him.

The day he defaulted on the loan, Mr. Cox had told them he was bringing his cattle company's new chief financial officer to the bank for a visit, the former employees recalled. Instead, he walked into bank president James Irwin's office with bankruptcy lawyer Henry Simon and announced, "I have a huge problem — I'm busted," according to one of the former employees, who was at the meeting.

The bankers said that Mr. Irwin then walked "like a zombie" into chairman

Ex-Director: Page 15 ▶

Downgrade Looms on Argentine Loans

But Reduction in Profits Would Not Approach Brazil Losses

By BART FRAUST

NEW YORK — Bank earnings, on the rebound in the first quarter, face a new jolt this year — the potential for billions of dollars in nonperforming Argentine loans.

But the shock to bank profits will not be as severe as occurred when Brazil declared a moratorium on loan repayments 15 months ago, analysts said.

U.S. banks' exposure to Argentina is about half as large as it is to Brazil. And no major moves to bolster reserves are expected, unlike what happened in the aftermath of the Brazilian moratorium.

In addition, Argentine debt talks are starting as the banks close in on an agreement that would allow Brazil to resume interest payments on its bank debt. Resumption of interest on Brazilian debt would more than offset loss of income from Argentina, analysts said.

The earnings impact from Argentina could be felt as early as this quarter, particularly if the International Monetary Fund in meetings this month with Argentine officials does not approve additional disbursements of a $1.9 billion loan package signed last year.

The first large bank holding company to declare Argentine debt nonperforming so far this quarter is Wells Fargo & Co., which recently classified $15 million of its $125 million Argentine debt as not accruing interest.

Other large banks said there are no immediate plans to declare Argentine loans nonperforming.

Argentina, with $54 billion in debt, is the third largest Latin American debtor, after Mexico and Brazil. The nation has not paid any interest on $35 billion in medium-term and long-term debt since the end of March.

A team of IMF officials flew to Buenos Aires this week to begin talks with Argentine officials, banking sources said. Argentina also still has available $150 million in existing bank loans and World Bank loans from which it could pay the first-quarter interest, the bankers said.

"There are funds that could be made available if Argentina moves quickly," said one banker.

But even with additional disbursements from the IMF and other lenders, bankers and analysts believe there is a strong possibility that, some time this year, much of Argentina's bank debt will not accrue interest.

"By the end of the third quarter, I think two-thirds of Argentina's loans will be nonperforming," said Lawrence Cohn, money center bank analyst for Merrill Lynch & Co.

Mr. Cohn was referring to Argentina's public debt. The country has permitted interest payments on private and trade-related debts.

Talks to Start in July

Argentina is expected to formally begin negotiations with the banks next month on restructuring its existing debt and on obtaining $2 billion in new loans.

"The country could run out of cash before the negotiations are complete and some time in the next few months could be in a de facto moratorium on interest payments," said Ronald Mandle, money center bank analyst for PaineWebber Inc., in a recent report.

Argentine government officials have stated repeatedly that unlike Brazil, they do not plan to declare a moratorium on foreign debt, but if they do not have the cash, they will not be able to repay the banks.

However, Argentine presidential elections are scheduled for next year. Analysts think growing support for a moratorium among opposition groups could pressure Argentine President

Argentina: Page 15 ▶

Argentina vs. Brazil Exposures

Dollar amounts in millions

	Argentine Exposure	Brazilian Exposure	Argentine Impact as % of Est. EPS	Brazilian Impact as % of Est. EPS
Bankers Trust	$264	$852	2.1%	5.7%
Chase Manhattan	1,010	2,740	7.8	21.2
Chemical	424	1,528	4.3	15.6
Citicorp	1,400	4,300	4.5	13.9
Manufacturers Hanover	1,540	2,117	16.5	22.7
J.P. Morgan	897	1,912	4.0	7.3
First Chicago	294	769	3.4	6.9
BankAmerica	673	2,701	10.0	26.7
First Interstate	90	305	1.2	4.2
Security Pacific	200	618	1.5	4.5

Source: PaineWebber

PEOPLE

Baldini Leaves ComFed Mortgage

By PHIL ROOSEVELT

NEW YORK — James G. Baldini, who helped build ComFed Mortgage Co. into one of the largest mortgage lenders in New England, resigned as president on Thursday with little explanation.

Jack C. Zoeller, who joined the Lowell, Mass.-based firm last year as an executive vice president, was immediately named to succeed him.

Under Mr. Baldini, the mortgage unit of ComFed Bancorp expanded from originations of $32.6 million in 1982 to $2.2 billion last year. The firm has the largest share of Massachusetts home mortgage originations, and possibly the largest share of the New England market.

Jack C. Zoeller

A ComFed announcement said Mr. Baldini, 39, was resigning for "personal reasons." But ComFed officials refused to elaborate, and Mr. Baldini could not be reached for comment.

Some New England rivals said they understood that Mr. Baldini was planning to start his own mortgage company. "He's been trying to raise capital for a few months now," one lending executive said.

The ComFed announcement noted that Mr. Baldini has agreed not to compete with the company through the end of this year.

At ComFed, analysts and competitors said, Mr. Baldini had worked especially hard to establish a strong sales force. His own compensation was tied to origination volume; last year it reached $2.7 million, exceptionally high for the industry.

Mr. Zoeller, by contrast, has made his name in capital markets. Hired by ComFed in September to lead secondary market activities, he was previously president of Capital Risk Management Corp., an Iselin, N.J.-based investment banking firm.

In an interview, Mr. Zoeller said that he has been working closely with the sales force ever since he arrived at ComFed.

"The entire sales force and the entire management team is intact," he added. He said that ComFed will seek "continued development of new products and growth in market share."

Mr. Zoeller, 39, is a graduate of the U.S. Military Academy at West Point. He earned a master's degree in public policy from Harvard University, was selected as a Rhodes scholar, and received a master's in politics from England's Oxford University. ■

Mortgage Insurance Chief Defends Trade

NEW YORK — William Lacy, president of the Mortgage Guaranty Insurance Corp., became the leader of the private mortgage insurance industry this week amid mounting criticisms of the trade by thrifts and others.

"Today, the private mortgage insurance industry is under attack," Mr. Lacy told a Washington meeting of the Mortgage Insurance Companies of America.

"If we expect to continue our role, we have to do a better job of defending ourselves," he added. "We have let people exaggerate and distort facts."

William Lacy

Mr. Lacy takes the reigns of the trade group as the industry continues to reel from thousands of mortgage defaults in the economically troubled Southwest. And the February collapse of the TMIC Insurance Co., a large Los Angeles-based mortgage insurer, adds to the sea of troubles he faces as he starts his two-year term as president.

In the latest assault on the industry, members of the U.S. League of Savings Institutions have begun complaining that mortgage insurers are lax in making claims payments and that they fail to pay in full.

"There have been a ton of complaints," said Dall Bennewitz, a senior vice president for the thrift group.

A special Savings League panel is exploring the issue, he said, and plans to survey lenders to measure the full extent of the problem.

In an interview, Mr. Lacy asserted that the complaints are coming from a small number of "very loud" lenders, adding that perhaps an arbitration board should be established to handle lender gripes.

— Phil Roosevelt

June 17, 1988, American Banker

S&Ls Will Continue to Occupy the Low End of the Playing Field

By HENRY PELTZ

A BILL has recently been introduced in Congress to extend the moratorium that has prevented thrifts from leaving the Federal Savings and Loan Insurance Corp. fund for one year. Due to expire on Aug. 10, 1988, the moratorium seems likely to be extended into 1989 in light of (1) the financial plight of the FSLIC, (2) the likelihood of continuing losses by this insurance arm of the Federal Home Loan Bank system, and (3) the reluctance of Congress to rule on this politically sensitive issue in an election year.

Another nonevent has been the announcement by Bank Board Chairman M. Danny Wall that the special insurance assessments on savings and loans by the FSLIC are likely to be levied for a number of years to come. Mr. Wall softened the message, however, by indicating that consideration would be given to reducing the premium for the more creditworthy institutions.

The root of the FSLIC's problems lies in lax lending and underwriting policies by thrifts, their commitment of substantial funds to speculative real estate projects, and weakening demand for housing and commercial space in various parts of the country.

Clearly, the cost of bailing out thrifts that are dead or dying because of bad management, bad accounting, bad regulation, and even bad legislation will be enormous. Trying to estimate the total cost is an exercise in futility, because that cost will ultimately be determined by the course of economic events, about which no one can be certain. More fruitful, perhaps, is to consider remedies, many of which are already under discussion by the regulators.

Mr. Peltz is vice president and senior thrift analyst at Keefe, Bruyette & Woods Inc.

'Any remedy is likely to include tighter enforcement of regulations on risk taking by thrifts.'

Any remedy is likely to include tighter enforcement of regulations on risk taking by thrifts and close oversight of thrift managers. Many such regulations already exist, but other new regulations or laws may also be in order.

Problems with Fund Merger

Structural changes, such as the merger of the FSLIC and the Federal Deposit Insurance Corp., are also being weighed in Washington. Given thrifts and banks in reasonably good health, such a merger might make sense. Under current conditions, however, a merger might well result in a dangerous drain on both funds and, hence, accomplish nothing. Another recent proposal is the formation of a new superagency that would take over the insurance function of both the FDIC and the FSLIC.

Based on public utterances from the heads of both funds, and the judgment of the General Accounting Office, the FSLIC appears to have the greatest problems at the moment.

In the private sector, when an insurance company starts to show underwriting losses, premiums are increased and efforts are made to reduce exposure to loss. Should not the FSLIC and the FDIC do the same?

Insurance of deposits has increased during the past 30 years from $5,000 per account to the current $100,000. Perhaps both funds shouldreduce the insured portion of deposits to $25,000 to $50,000 and charge premiums directly to depositors who wish to keep larger balances.

This would obviate the argument by the thrift industry that it should not bear any further increases in deposit insurance rates. Presumably some kind of regulation could also be worked out that would facilitate the levying of insurance premiums on large depositors who invest their funds in thrifts through brokers or investment bankers.

New Limits May Trigger Withdrawals

The fly in the ointment is, of course, that a change in the limits on insurance of accounts might trigger an outflow of savings deposits, especially to the money market funds. These repositories invest principally in U.S. Treasury obligations and other high-grade short-term securities, and therefore need no insurance.

With their low-overhead these funds can pay out a high proportion of their interest income to savers, and because of their substantial liquidity they pose a severe threat to the savings role played by both thrifts and banks. In fact, some observers believe that the savings role of both these financial institutions is becoming obsolete because of these funds.

There may be no ready solution for the money fund problem. Perhaps, in time, if the thrifts can't "lick 'em," they will "join 'em." We have often wondered why thrifts have been eager to offer stock and bond mutual funds to their clientele but not money funds, which would reasonably be expected to protect their savings flows, albeit at a low rate of return to the thrift.

Thrift executives often protest that they are not playing on a level field vis-a-vis commercial banks in terms of deposit insurance. An argument can be made that government deposit insurance is the same commodity whether the deposit is in a bank or a thrift.

This is because failure of either the FSLIC or the FDIC would probably result in a call on the Treasury (for which read the taxpayer). If the U.S. government is, in fact, the insurer, why should the two funds charge different premiums for the same service?

Yet because the banking industry is in better shape than many thrifts, and the Oil Patch seems to be a bigger problem for the thrift industry than for the banking industry, FDIC insurance premiums are lower than those of the FSLIC.

There are other reasons for the disparity in premiums, some relating to past differences in regulation between the two industries and some to the more diversified nature of commercial bank lending and funding (so that banks came through 1980-82 in better shape than thrifts).

In addition, we suspect that deregulation has had a more profound effect on thrifts than on banks and that the adjustment by thrifts to a deregulated environment has been more problematic.

Whatever the reasons, the level playing field problem may not go away soon. ■

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Editor: William E. Zimmerman
Managing Editor: Brian P. Sullivan
News Editor: Thomas J. Ferris
Associate Editors: Laura Gross, Sanford Rose, David O. Tyson

NEWS BUREAUS:
Washington: Chief, Robert Trigaux, 911 National Press Building, Washington, DC 20045; (202) 347-5529; Telecopier: (202) 628-6522.
Midwest: Chief, Richard Ringer, 53 W. Jackson Blvd., Suite 230, Chicago, Il 60604; (312) 663-6380; Telecopier: (312) 939-4925.
West Coast: Chief, Robert Luke, Suite 320, 510 W. Sixth St., Los Angeles, CA 90014; (213) 627-0953; Telecopier: (213) 627-8310.
San Francisco: Chief, Michael A. Robinson, 450 Sansome Street, Suite 1420, San Francisco, CA 94111; (415) 986-8705; Telecopier: (415) 398-4156.
New England: Chief, Michael Weinstein, 210 South St., Boston, MA 02111; (617) 542-6848; Telecopier: (617) 542-2221.
London: Chief, John J. Duffy, American Banker, c/o Infopac S.A., 31-35 Beak St., London W1R 3LD England; (011) (441) 439-3066; Telecopier: (011) (441) 734-5153.

Feature Editions Editor: Patricia Stundza
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Art Director: Pamela Budz
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Telex: 421768 ABKR

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LETTERS TO THE EDITOR

Roth Biographer Disputes Reading of Comptroller's Report

To the Editor:

Thank you for reviewing "People's Banker" in your issue of June 3. ["Leveraging Lollipops: Memoirs of a Marketer," page 20] It is gratifying to know that your reviewer, Robert Paul Molay, finds the book "highly readable."

However, while generously crediting Arthur T. Roth for his innovative contributions to U.S. commercial banking, Mr. Molay seems to have misread the report by James E. Smith, former comptroller of the currency, which deals with the failure of the Franklin National Bank.

Smith, whose report to the House Banking subcommittee on financial institutions, supervision, regulation, and insurance is reprinted in full as an appendix in "People's Banker," stated:

"During the five-year period 1963-68, when Roth was chief executive officer, Franklin had no serious problems or extraordinary deficiencies. The troublesome problems with the bank started in 1969.

"Roth was removed as chief executive in July 1968."

The quotation that Mr. Molay took from a bit later in the comptroller's report on the bank's "deteriorating condition," failure to establish confidence, etc., obviously does not apply to Roth. As the comptroller made clear, Franklin's percentage of classified assets to gross capital funds had been reduced to 16.2 by 1969.

This was accomplished under Arthur Roth's leadership, as described in "People's Banker." During Roth's last year as executive, Franklin's stock rose in price from $31.50 to $46.50.

In fairness to Mr. Molay, it is easy to misread the comptroller's report. It overlaps dates, mixes verb tenses, and blurs eras of executive responsibility.

Smith did not like Roth, yet in the context of his total report, Franklin's deficiencies fall on those who succeeded Arthur Roth, several of whom went to prison for criminal acts.

The comptroller's report was an apparent effort to explain his failure to act in spite of warnings from Roth to Smith, the Federal Reserve, the Federal Deposit Insurance Corp., and other regulators and agencies. The comptroller admits that his office "was not sufficiently aggressive" and "might have held meetings with bank management in 1973."

But Roth had been sounding the tocsin since 1972. The Comptroller's office did not take any important action against the bank until the summer of 1974, when Franklin was too far gone to be rescued.

As Mr. Molay notes, comments and reports critical of Arthur Roth are included in "People's Banker." However, the comptroller's report, while critical of Franklin, did not criticize Roth.

Rather, up front, it clearly absolved Roth, if absolution is necessary. Roth was responsible for Franklin's extraordinary success, as the record shows, not for its failure.

Walter S. Ross

Mr. Ross is the author of "People's Banker: The Story of Arthur T. Roth and the Franklin National Bank"

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Argentina's Bad Debt May Hurt US Banks as Early as This Quarter

Continued from Page 2

Raul Alfonsin to support an outright suspension of payments. Antonio Cafiero, a leading Peronist candidate for president, has supported a limited moratorium.

"The elections create a degree of uncertainty," a banker said.

Mr. Mandle predicted that, in most cases, the impact on bank earnings of Argentina will be much less than from Brazil.

He said Manufacturers Hanover Corp., with $1.5 billion in Argentine loans, would feel the biggest impact on earnings per share. The analyst forecast that failure of Argentina to pay interest would shave 16.5% off his $8 estimate of Manufacturers' 1988 earnings per share.

BankAmerica Corp., with $673 million in Argentine loans, would feel a 10% impact, Mr. Mandle said.

But Citicorp, with $1.4 billion in Argentine loans, would feel only a 4.5% impact on earnings per share.

Bankers are posturing that the existence of nonperforming loans would make the negotiations more difficult. "It will be hard for Argentina to get new loans if its old loans are on nonaccrual," one banker said.

Many bankers and analysts expect negotiations with Argentina to be tougher than those with Brazil, which have continued since last September and are not over yet. Brazil's lead banks are currently trying to line other banks to participate in a new $5.2 billion loan. The proposed agreement also includes a 20-year rescheduling of $62 billion in existing Brazilian debt.

During his recent visit to New York, President Alfonsin informally started negotiations by urging bankers to reduce interest on existing debt to 4% a year for three years. Currently, Argentina pays a market rate based on the London interbank offered rate plus one percentage point.

Bankers are expected to balk at the proposal.

"I think the banks are fed up with Argentina," said Merrill Lynch's Mr. Cohn. "The talks are likely to be much messier than with Brazil. The borrower is more intransigent, and the economic performance of the country is weaker." ■

Ex-Director of InterFirst Bank Dallas Charged with Fraud in Loan Default

Continued from Page 2

Robert Stewart's office to break the news.

"Buddy, I've got a problem and you have a problem," one banker heard him say.

The former employees say they are unsure how Mr. Cox lost his money. As for the cattle that collateralized most of the borrowings, one of the former employees said: "He [Cox] said there wasn't any cattle. Mr. Cox didn't elaborate. He wouldn't elaborate."

Between 1979 and 1984, Mr. Cox would borrow money from the bank every April to finance cattle operations, the former employees said. By fall, he usually paid back the loan. But in late summer of 1985, Mr. Cox asked to roll the loan over every 90 days, according to the bankers.

Mr. Cox said he was enlarging and diversifying his business, they said. Later that year, he purchased Swift Independent Packing Co., the nation's no. 2 meat processor, they said.

The former employees said that loan officers grew suspicious and decided to visit West Texas to inspect the cattle that were pledged as collateral on all but $10 million of the loans. They were put off by Mr. Cox several times.

One loan officer was reprimanded by his superiors in May 1986 for badgering Mr. Cox, the bankers said.

After Mr. Cox defaulted, InterFirst's lawyers concluded they could get him to pledge his valuable ranch land as additional security. Only then did they learn he already had transferred the most valuable parcels to his father to satisfy a $14 million loan from the summer of 1985.

Mr. Simon, the bankruptcy lawyer, has said that Mr. Cox didn't deliberately mislead the loan officers, because Mr. Cox did not have a clear picture of his financial situation. ■

Prudential-Bache Loses Last Appeal In $3.7 Million Suit Against Citibank

Special to the American Banker

NEW YORK — A state appellate court has upheld dismissal of a $3.7 million suit against Citibank by Prudential-Bache Securities Inc.

The suit claimed Citibank was partly responsible for an embezzlement scheme masterminded by a former Prudential official.

The 3-to-2 decision was filed Wednesday by the Appellate Division of the state Supreme Court, First Department. The minority issued a sharply worded dissent accusing Citibank of "serious banking malfeasance."

The case arose from an $18.9 million scam by John Efler, former head of the Prudential department that dispensed dividends and interest payments to clients. Mr. Efler used accounts at Citibank and Bank Leumi to launder the stolen funds.

Mr. Efler and his coconspirators withdrew cash in amounts called "niners," slightly less than $10,000. Withdrawals over $10,000 would have required filing cash transaction reports with the Internal Revenue Service.

Mr. Efler was sentenced to 20 years in prison in 1984 for his part in the fraud. Eight others also pleaded guilty, including two former Citibank employees who admitted they accepted bribes.

The dissenting opinion charged that the majority on the appellate court "condones what appears to be serious banking malfeasance on the part of the defendant . . ." The cash withdrawals were made with the "connivance" of at least two Citibank employees, the opinion noted.

Also noted in the minority opinion was testimony before a federal grand jury that the branch manager and others at Citibank might have been aware of these accounts. But there was no evidence that these officials had also been bribed, the dissenters said.

The minority opinion concluded that, apparently, the officers and employees at the bank "winked" at checks that were slightly below $10,000.

The majority issued no opinion, but relied on the reasons given by Justice William P. McCooe when he dismissed the case in the lower court. The judge said Prudential wasn't entitled to recover any of its loss because it, not the bank, had been in the best position to detect the fraud. ■

Fed Gives Nod to Thrift For Holding Company

HOLYOKE, Mass. — The Federal Reserve Board has given Vanguard Savings Bank here final approval to form a bank holding company, Affiliated Banc Corp., according to Joseph P. Shiel Jr., who will be chairman and president of the bank and the holding company.

This enables management to move into a "variety of bank-related activities as we continue the successful expansion of the Vanguard Bank network," Mr. Shiel said.

Each share of Vanguard common stock will automatically convert to one share of of Affiliated Banc Corp. common. The stock will trade on the NASDAQ National Market System under the new symbol ABCV.

Affiliated Banc Corp.'s sole subsidiary, Vanguard Bank, is a state-chartered savings bank insured by the FDIC. Headquartered in Holyoke, Vanguard currently serves western Massachusetts through seven banking offices. ■

Would . . .

Continued from Page 13

ations occur to Chris. He has no evidence to support his report and Jim may simply deny the charge if it is made. The successful suitor in this case turned out not to be the multinational customer whose acquisition plans Jim had originally overheard.

Jim is a very popular guy in the group; accusing him in this way could expose Chris to unfavorable repercussions. Finally, bankers hear all kinds of rumors and certainly are permitted to invest in stocks, so where should the line be drawn?

Do you believe Jim violated the law and/or the bank's code of ethics banning trading on insider information?

What should Chris do? What are the likely outcomes of his various options?

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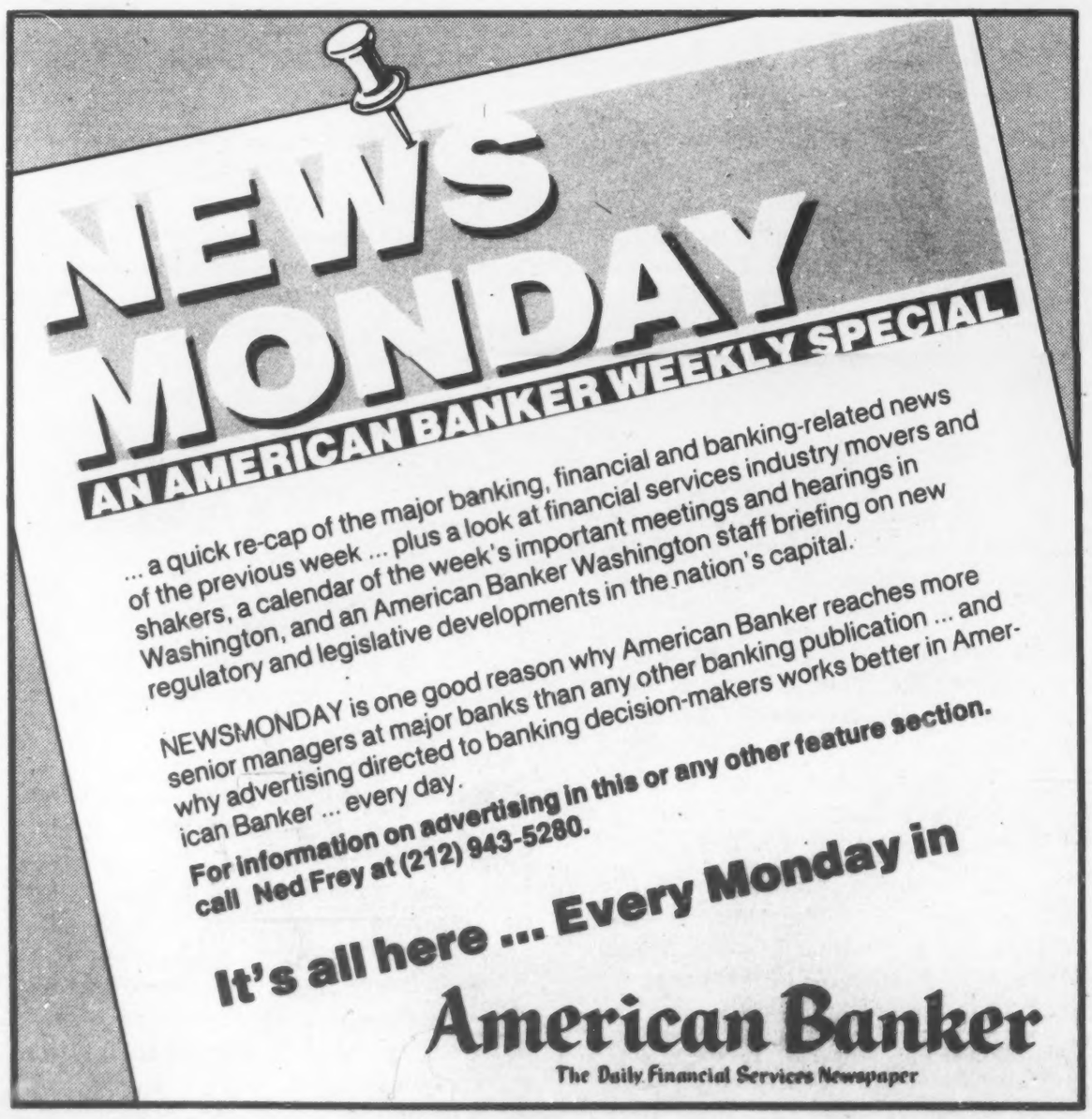
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